

**TOWN OF HAMILTON
FINANCE & ADVISORY COMMITTEE
OCTOBER 27, 2015**

The Hamilton Finance & Advisory Committee: Rick Sprenkle, Nick Tensen, David Wanger, Joe Hughes, John Kain met at the Hamilton Town Hall at 7:07 p.m. on Tuesday, October 27, 2015. Finance Director Brian Connolly, Selectman Bill Wilson also present.

Call to order

Rick Sprenkle called the Hamilton Finance & Advisory Committee meeting to order at 7:03 p.m.

Sprenkle entertained a motion to put Oydessey Advisors' consultant Parker Elmore at the top of the agenda. David Wanger so moved. Nick Tensen seconded the motion.
VOTE: Unanimous.

Discuss Other Post Employment Benefits report (presentation by consultant from Odyssey Advisors)

Parker Elmore presented GASB 45 results noting that OPEB consists primarily of post retirement medical costs but also includes modest life insurance and some dental. Three years ago Hamilton had a \$5.6 million OPEB liability and now the Town has a \$6 million liability. Hamilton changed its Medicare plan for its retirees which reduced its OPEB liability. Only 5% of Massachusetts communities are making meaningful funding to its OPEB liability.

The Town's normal cost is the value being earned by 56 active employees: \$184,224 a year annual benefit accrual (\$3,290 deferred compensation per eligible active plan participant with police/fire employees costs being higher, \$4,408 a year, which is on target with peer communities). The Town's benefit payment expense being paid each year is \$176,091 (\$4,193 per covered retired employee). With GASB 45, municipalities are getting away from pay as you go accounting.

The Town has \$5,959,170 of unfunded actuarial liability and if it was phased in over 30 years the annual cost would be \$250,000, \$184,000 annual normal costs and 4% interest on what has been accrued on the balance sheet of \$84,000 a year for unpaid liability of \$2 million since no payments are being paid off. If \$2 million (accrual on balance sheet

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not cash cost toward \$5 million permanent liability) were put into OPEB trust there would be liability with no interest. When payments are not made the interest would keep accelerating as would the amortization of the debt.

Discussion was on \$25,000 the Town has put away for a few years which is not in an OPEB trust. Currently the \$200,000 is co-mingled with other funds at the Town's bank. The present arrangement with these funds versus putting them in an OPEB trust allows the Town to tap the money if the Town has an expense. Some municipalities work with organizations to invest the money in the market as part of the OPEB trust but the return on investment has to outweigh the management fees.

The more the Town funds the liability the less it will have to fund as it reduces the liability. If the Town funded the \$184,224 earned benefits each year this would prevent the present liability from growing beyond \$5,959,170 unfunded actuarial liability in today's dollars. It was acknowledged that many municipalities cannot afford to fund \$184,224 annually.

Hamilton is funding its share of retirement pension for employees to fully fund that liability by 2035. At that time these funds could be applied to OPEB. Discussion ensued about the possibility of reducing costs besides funding the liability by reducing headcount, and healthcare costs (retirees pay 45%). It was reiterated that the Town has already done Section 18 migration and reduced some of its OPEB costs by moving from Medicare to Medex II. Also mentioned was the difficulty for the Town to implement increased deductible or co-pays. In addition, there are 12 towns in the state that no longer provide the OPEB benefit for spouses when the retiree dies.

Discussion was on Town's \$184,000 annual liability and how it is putting away \$25,000 annually and conversation Town officials have had to increase that amount by \$50,000 a year (i.e., \$75,000 this year, \$125,000 the following year). Discussion addressed possibility of working toward full funding by 2046 and intent to spread out the cost for taxpayers over years as well as trying to manage the situation to keep the problem from getting worse.

Discussion was on how the Town's pension liability is on the books now, and in 2018 the Town's OPEB liability will be more visible on the books. It was noted that the bond rating agencies are aware of the Town's funding liabilities as percentage of payroll and budget compared to peers when determining Hamilton's municipal bond rating. The important factor is how the Town is addressing the liability to bring it down and non-compliance with GASB results in a municipality getting a lower bond interest rate.

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The state would not allow the Town to no longer offer and fulfill OPEB that it adopted decades ago (under M.G.L. Section 32) when the healthcare costs were a lot lower. Discussion addressed how this information will be presented by the consultant at Town Meeting describing what the OPEB obligation is before explaining how Hamilton plans to fulfill it. It was noted that Hamilton has a mature workforce although it could receive bills for former employees who have moved on to other towns and there is still a percentage of the liability that the Town will be responsible for.

Discussion reiterated that if the Town funded \$184,000 annually today toward the unfunded liability it would keep the problem from getting worse (liability growing at 4%), in addition to the \$176,000 the Town is already paying annually for retiree benefits. Also, if the money were put in a binding OPEB trust with less flexibility than if the funds were in a bank account the Town is still responsible for paying the OPEB, and there is an exit strategy, if needed.

Discussion was on possibility of using a blended portfolio with 7% annual return, and if \$118,000 was put aside annually above and beyond the \$176,000 the Town is already paying it could fully fund OPEB by 2046. The Town will decide, working with investment expert (there are three in the state that deal with OPEB trust, that Town Meeting adopts, including PRIT, Rockland, Bartholomew), what fund the money would be put into so it can realize the returns so OPEB trust would be self-funding and FinCom/BOS could lend guidance (i.e., \$75,000 for FY'17 and \$125,000 for FY'18) to Treasurer and Town manager. Also mentioned was how liability would increase due to improvements in mortality, and that PERAC is going to be changing actuarial mortality tables.

Discussion addressed the importance of understanding HWRSD and Wenham's OPEB liability where those entities are using pay as you go payment method. To get to the \$184,000 annually for Hamilton it would cost 10 cents more on the tax rate, for \$118,000 it would be 7 cents on the tax rate. In addition, funding the \$5 million liability with debt is not recommended since it locks in future Town boards to pay 4% a year interest, so the risk does not outweigh the benefit; using a funding schedule is preferable. Also mentioned was that most enterprise funds fund their share of the liability (i.e., water enterprise).

Discussion ensued about additional costs when medical costs go beyond the excise tax threshold in 2018 based on current trajectory of 5% increase in healthcare costs and 2.5% inflation there could be a 40 cent tax on every dollar thereafter. Hamilton is expected to see this increase in 2022.

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Also noted was the transition to GASB 75 where liability is moving from notes in financial statement to balance sheet. There is more work associated with money weighted rates of return, depletion date, investment policy by asset class and interest rate. In 2018 the investment policy will be specified and blended with interest rate. So municipalities that fund will be better off than those that don't within reasonable balance and it is unlikely the state is going to set aside money for municipal OPEB but the commonwealth is expected to mandate funding for OPEB. Hamilton will adopt GASB 75 in FY'18.

In addition, the brief presentation by Odyssey Advisors on OPEB scheduled for Special Town Meeting is designed to communicate to the taxpayers about the liability, and the Town's interest in increasing funding at spring Annual Town Meeting. As well as moving forward to trajectory to fully funding over time the Chapter 32 obligation adopted by the Town decades ago.

Public Comment

None.

Minutes Approval – October 20, 2015

These minutes will be ready to approve at an upcoming FinCom meeting.

Review Fall 2015 STM Article 2-3 and Vote Recommendation as applicable

Article 2-3: *Community Preservation Committee Projects* – This article addresses CPC recommended projects for CPA funding totaling \$87,890: Historic Preservation - \$9,980 for final phase of Preserve Our Pictures project, \$65,000 for window replacement and electrical upgrade at American Legion building, and Community Housing: \$13,000 for a roof repair at Hamilton Housing Authority property at 31 Union Street.

Discussion ensued about what is proposed to be replaced at the American Legion building and extent of need for repair, also why CPA funds are being proposed for allocation for capital improvements at a non-Town-owned building. The Town gave the building to the American Legion for \$5 and the Town has right of first refusal to purchase the building for \$5,000 if the American Legion decides it no longer needs it. So an argument was put forward that investing in the American Legion building was maintenance of a potential future Town building and public can rent the Legion facility where there is no public access. The CPC reviewed this application request and

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approved it to move to Town Meeting vote. The BOS has also recommended favorable action on the article.

Discussion was on stewardship, prudent and appropriate use of CPA funds and public monies for a private property with a liquor license, rental income and dues, and lack of knowledge about how the private property will use the funding for the capital improvement project, hire someone to do the work, and assess the job done. Sprenkle noted that as a veteran he would not make a judgment on the article.

Discussion was on the importance of American Legion for senior citizens and fixed income residents in Town who are members of the post, and any income that the building generates goes toward the organization. Also mentioned was where CPA funding application for the American Legion falls in the CPC's capital improvement projects plan for the next five years. In addition, that CPC will be tightening up its review criteria for future project applications as they apply to CPA criteria (open space and recreation, historic preservation, and community housing) due in part to an increased number of applications that the Committee is reviewing for CPA funds.

Also noted was how CPA funds have been used for HW Community House and recently this organization has been asked by the CPC to fundraise for half of its CPA application project costs now and moving forward. The CPC has done due diligence with the American Legion request regarding amount of income the Post generates and this organization was not asked to fundraise to share half of the CPA application project costs. Discussion was on necessity for the Town to have a holistic view of all the buildings in Hamilton especially as part of the CPC project application process when that Committee is asked for CPA fund support.

The FinCom decided to postpone a recommendation vote on Article 2-3 until the morning before STM and some FinCom members will inquire with CPC members about that committee's consideration related to CPA project application from the American Legion. Information researched will be sent to FinCom but no email deliberation will occur. Also mentioned was whether or not the Hamilton Housing Authority would be asked to provide matching funds moving forward associated with future CPA project application funding requests.

Discuss guidance on the FY'17 budget percentage increase

Wanger moved to change the order of the agenda to discuss guidance on the FY'17 budget percentage increase. Tensen seconded the motion. VOTE: Unanimous.

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Discussion ensued about how the HWRSD can control its operational budget, increased pressure relative to continually decreasing enrollment (40 fewer students last year and projection is to go down 25 this year), and potential for contraction in the school budget associated with level services (i.e., at inflation rate: 2% to 2.5%). There has been a 0% COLA in Social Security. A proposed budget percentage increase (i.e., 2%) will also be communicated to the Town manager regarding the Town budget and level services.

Wanger moved that the FinCom guidance for FY'17 level service operational budget excluding variations in revenue is for 2% for both the Town and School. Tensen seconded the motion. VOTE: Unanimous.

Discussion ensued on how financial statement from HWRSD is supposed to be provided monthly to the supporting communities per the regional agreement and these reports are received quarterly. Also mentioned was how the FinCom could follow up to receive final report on operational audit that was done for HWRSD.

Sprenkle entertained a motion for the FinCom to adjourn at 10:10 p.m. Wanger so moved. Tensen seconded the motion. VOTE: Unanimous.

Respectfully submitted by Jane Dooley, Minutes Secretary

ATTEST: 
Rick Sprenkle, Chairman